

## Message Text

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ORIGIN XMB-04

INFO OCT-01 NEA-10 ISO-00 EB-07 CIAE-00 INR-07 NSAE-00

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R 101510Z AUG 76

FM SECSTATE WASHDC

TO AMEMBASSY ABU DHABI

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ABU DHABI FOR INFO PASS ACTION TO DUBAI

E.O. 11652: N/A

TAGS: BEXP, EFIN, ETRD, TC

SUBJECT: DUBAI ALUMINUM SMELTER

REF: (A) ABU DHABI 1785; (B) ABU DHABI 1793; (C) ABU DHABI A-25;  
(D) ABU DHABI 723; (E) ABU DHABI A-85; (F) ABU DHABI 2070

1. ON JUNE 16, 1976 EXIMBANK RESPONDED TO PC REQUEST FROM TPM  
OF UNITED TECHNOLOGIES FOR ASSISTANCE INSALE OF 10 GAS TURBINES  
FOR DUBAI ALUMINUM SMELTER (DUBAL) AS FOLLOWS: "IT IS WITH REGRET  
THAT WE MUST INFORM YOU THAT AFTER CAREFUL REVIEW, EXIMBANK  
HAS DECIDED THAT IT CANNOT CONSIDER YOUR APPLICATION AT THIS TIME."

2. EXIMBANK RESPONSE BASED ON FOLLOWING FACTORS:

(A) LACK OF SUFFICIENT DATE (NO FEASIBILITY STUDY), FOR PROJECT  
OF SUCH LARGE SIZE (DOLS 500 MILLION).

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(B) NEGATIVE TONE OF EMBASSY REPORTS ON PROJECT IMPLEMENTATION AND COSTS (REF C AND E) AND UNCERTAINTIES ABOUT FUEL SUPPLY (REF D).

(C) UNCERTAINTIES AS TO NECESSITY FOR EXIMBANK ASSISTANCE, PARTICULARLY IN VIEW OF REPORTS THAT MORGAN GRENFELL ARRANGING FINANCING.

(D) ALTHOUGH WASHINGTON DISTRIBUTION ERRORS DID NOT BRING SOME OF EMBASSY'S REPORTING ON SITUATION IN EMIRATES TO EXIM, DECISION DID NOT RESULT FROM "LACK OF SUFFICIENT INFORMATION FROM STATE DEPARTMENT" AS COMPANY CLAIMED IN ITS TELEX TO EMBASSY.

3. THE NECESSITY FOR EXIMBANK FINANCING IN UAE IS REALLY KEY POINT TO BE RESOLVED BEFORE EXIMBANK CAN REASONABLY ASSIST WITH PROJECT FINANCING IN EITHER ABU DHABI OR DUBAI. IF EMIRATES RUNNING LARGE BUDGET AND CURRENT ACCOUNT SURPLUSES AND BUILDING UP CASH AND GOVERNMENT SECURITIES HOLDINGS, HOW CAN EXIMBANK CREDITS BE JUSTIFIED ?

4. RECENT EMBASSY REPORTS (ECONOMIC TRENDS, A-50 AND A-7) INDICATE CONTINUING CURRENT ACCOUNT SURPLUSES FOR UAE AS ENTITY, OVER DOLS 2 BILLION IN EACH 1974 AND 1975, WITH SIMILAR PROJECTION FOR 1976. FURTHERMORE, EMBASSY STATES THAT ABU DHABI'S FOREIGN PORTFOLIO INVESTMENTS AMOUNT TO ABOUT DOLS 2 BILLION AT END OF 1975. WITH SUCH SURPLUSES, EXIMBANK HAS TO QUESTION WHETHER EXIMBANK ASSISTANCE IS, IN FACT, REQUIRED.

5. WE HAVE CAREFULLY REVIEWED THE REPORTS MENTIONED REFTTEL A. UNFORTUNATELY, NEITHER A-49 (DUBAI BUDGET) NOR A-85 (DUBAI'S ECONOMIC DEVELOPMENT) HAD BEEN PREVIOUSLY ROUTED TO EXIMBANK. IT IS APPARENT THAT DUBAI IS STILL RUNNING A BUDGET SURPLUS BASED ON THE LARGE OIL INCOME. AT SAME TIME THERE HAVE BEEN EXTERNAL BORROWINGS TO FINANCE MAJOR PROJECTS. CAN EMBASSY DETERMINE TO WHAT EXTENT THESE MAY HAVE BEEN FINANCED BY OFFICIAL EXPORT CREDIT AGENCIES SUCH AS ECGD TO MITI? WE UNDERSTAND DRY-DOCK FINANCING ARRANGED THROUGH EURO-DOLLAR CREDITS ADVANCED BY COMMERCIAL BANKS.

6. WE ARE ABLE TO OBTAIN REASONABLY ACCURATE FIGURES ON THE OIL PRODUCTION AND REVENUE IN ABU DHABI AND DUBAI. IT IS, HOWEVER, LIMITED OFFICIAL USE

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DIFFICULT TO GET A CLEAR UNDERSTANDING OF THE ECONOMIC PICTURE FOR DUBAI SEPARATELY RELATIVE TO BUDGET, EXTERNAL DEBT AND REPAYMENTS, TRADE AND CURRENT ACCOUNT BALANCES, FOREIGN EXCHANGE RESERVES, AND PROJECTIONS OVER NEXT FEW YEARS. BETTER STATISTICS ON THESE AREAS WOULD MAKE IT POSSIBLE TO DETERMINE THE DEGREE OF ASSISTANCE DUBAI MAY REQUIRE AND WHETHER OR NOT EXIMBANK ASSISTANCE MIGHT BE JUSTIFIED.

7. EXIMBANK HAS HAD NO DIRECT LOANS IN THE GULF AREA AND THEREFORE NO PAST EXPERIENCE WHICH WOULD PROVIDE GUIDANCE. WE HAVE HAD RELATIVELY LITTLE OR NO CONTACT WITH GOVERNMENT OR BUSINESS OFFICIALS WHO MIGHT BE INVOLVED WITH SOME OF THE LARGE PROJECTS MENTIONED AND THEREFORE UNABLE TO MAKE ANY ASSESSMENT AS TO THEIR COMPETENCE FOR MANAGING LARGE AND COMPLICATED PROJECTS. IF SUCH OFFICIALS ARE VISITING THE US, EMBASSY MIGHT SUGGEST THEY CALL AT EXIMBANK.

8. EXIMBANK HAS NOT RECEIVED DATA FROM MORGAN GRENFELL MENTIONED REFTEL B.

9. WHILE EXIM SINCERELY REGRETS ANY POTENTIAL FOR MISUNDERSTANDING OF ITS POLICIES ON PART OF SHAIKH RASHID AND OTHER MEMBERS OF DUBAI LEADERSHIP, EXIM GUIDELINES FOR OPERATION RESULT FROM CAREFUL CONSIDERATION OF APPROPRIATE ROLE FOR EXIM. SUGGEST EMBASSY USE SUPPLEMENTARY INFORMATION ON EXIM WHICH WE ARE FORWARDING UNDER COVER OFFICIAL/INFORMAL TO EXPLAIN TO CONCERNED PARTIES EVOLUTION AND LOGIC OF EXIM'S LENDING POLICY. KISSINGER

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